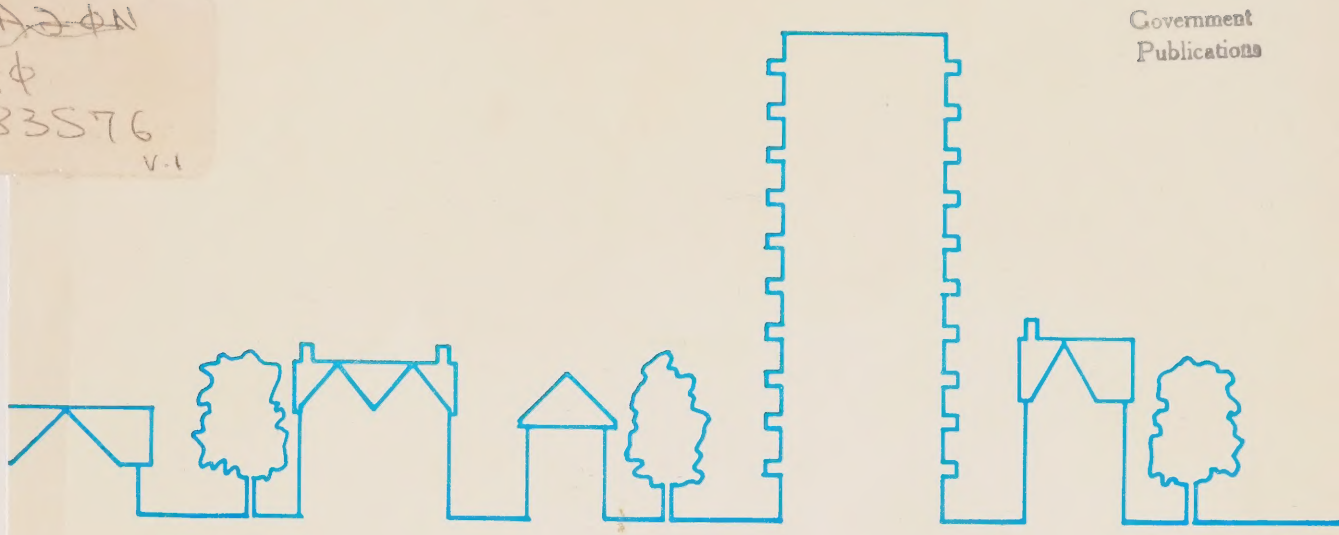

# STUDY OF RESIDENTIAL INTENSIFICATION AND RENTAL HOUSING CONSERVATION

## PART 1 : DETAILED SUMMARY OF FINDINGS AND RECOMMENDATIONS

PREPARED FOR
THE ONTARIO MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING
AND THE ASSOCIATION OF MUNICIPALITIES OF ONTARIO

BY
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MARCH 1983

## VOLUME 1

NOTE:

This is a consultants' report. Any statements or opinions expressed herein are those of the writers or of persons quoted and, unless otherwise noted, are not necessarily endorsed by the Ministry of Municipal Affairs & Housing, Government of Ontario, or the Association of Municipalities of Ontario.

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- **What were the objectives of this study?**

  - The study was commissioned with two prime objectives in mind:

    Objective 1: To examine the opportunities and constraints that exist for meeting some of the future additional housing needs in Ontario during the 80's and 90's through the intensification of existing residential neighbourhoods.

    Objective 2: To examine some of the major forces at work that have and could threaten the conservation of the existing stock of rental housing and the tenants that occupy this stock.

  - In both cases the investigators were to make recommendations as to what government and others could and should do to realize intensification opportunities and to ensure the conservation of the existing rental stock.

- **Why was this study commissioned with these objectives?**

  - Some of the major issues and concerns that lead to the commissioning of a study with these objectives are as follows:

    - Ontario will need more rental and ownership housing units over the next 10-20 years.

    - The average size of Ontario households has been decreasing and will likely continue to do so over the next 10-20 years.

    - Affordability could be a major problem during this period with regard to the new housing that will be needed.

    - Given the capital investment that we have now in the existing housing stock and its relative affordability, it is important that this stock be conserved and used as efficiently as possible.

    - The 80's and quite possibly the 90's are likely to be periods of economic restraint in terms of public expenditures related to facilities and services and therefore ways will have to be found to make better and more efficient use of what we have, particularly those facilities and services which form the infrastructure of our existing residential neighbourhoods.

    - The provision of new housing by way of large scale redevelopment and/or a further expansion outwards of Ontario's urban fabric are becoming increasingly more difficult for a variety of political, social, economic and physical reasons.

. **How was it done?**

. The investigations, particularly those relating to Objective #1 were carried out on a case study area basis in the municipalities of Toronto, North York, Hamilton, Kingston, Woodstock and Ottawa with special input from municipal officials in Thunder Bay. These municipalities were selected to reflect the fact that many of the issues under investigation were more associated with larger urban areas as well as to provide at the same time, a range of sizes of municipalities for comparative purposes.

. The investigations were carried out by a series of five individual consultants working under the direction of a sixth consultant retained to co-ordinate and direct the study investigations. The work of each consultant was monitored and reviewed by a core study group made up of the five consultants, the study director and representatives of MOMAH and AMO.

Core Study Group

| | |
|---|---|
| Study Director: | Peter McInnis<br>Klein & Sears Research and Planning Limited |
| Consultants: | Michael Adams<br>Environics Research Group |
| | Jack Klein<br>Klein & Sears, Architects |
| | Greg Lampert<br>Clayton Research Associates |
| | Frank Lewinberg<br>Lewinberg Consultants |
| | Peter Milligan<br>Walker, Poole, Milligan |
| MOMAH Representatives: | Sue Corke<br>Gary McAllister<br>George Przybylowski |
| AMO Representatives: | Mayor W. McLean<br>Town of Ajax |
| | Gwyn Simmons<br>City of Ottawa Non-Profit Housing Corporation |
| Special Asssistant To Core Group: | Betty Kaser |

- While the consultants' work on this study began formally at the beginning of July, 1982, some considerable effort was spent in advance of this start-up by the Study Director working closely with MOMAH and AMO representatives in developing terms of reference and a work plan that reflected the findings of an extensive and detailed review of the literature pertaining to the issues in question. This literature review was carried out by the Ministry during April and May of 1982 and has been published under separate cover. The prime purpose of this review was to identify the extent to which the issues in question had already been considered and the findings and conclusions that had been reached in order that the consultants' work could be focussed on those issues about which there is limited knowledge or understanding. Also, this review provided a valuable basis for establishing certain propositions to be tested in the study.

- The study was funded by the Ontario Ministry of Municipal Affairs and Housing through the Housing Renovation and Energy Conservation Unit of the Community Development Wing. The Ministry's chief representative on the study was Mr. George Przybylowski of the Housing Renovation and Energy Conservation Unit.

- This first volume of the report was prepared by the Study Director, Peter McInnis of Klein & Sears with the assistance of Betty Kaser. It provides a detailed summary of the major findings and conclusions of the investigations that were undertaken as part of a study of neighbourhood intensification and housing conservation issues sponsored by the Ministry of Municipal Affairs and Housing and the Association of Municipalities of Ontario. Also, it provides a set of recommended actions pertaining to our findings for consideration by the Government of Ontario and the Association of Municipalities of Ontario.

  This summary constitutes Part 1, Volume 1 of the overall study report and is organized in accordance with the organization of the other parts and volumes that make up the overall study report. As such, this volume summarizes the findings and recommendations related to Parts 2-4 (or Volumes 2-10) of the study. The findings and conclusions from each of these four parts of the study are presented as answers to a series of specific questions related to each topic that was examined.

Other volumes of the report include:

| PART # | TITLE (Prime Consultants) | VOLUME # |
|---|---|---|
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## PART 2: ECONOMIC AND DEMOGRAPHIC TRENDS FOR THE 80's & 90's

- **How has Ontario's housing stock and population changed since 1961.**

### Population Changes

- The number of households in Ontario increased by 80% in the 1961-1981 period to a total of just under 3 million, while the overall total population increased by only 38%. The number of non-family households (mostly single people) increased by over 300% between 1961 and 1981, compared with an increase of 57% in the number of family households.

- Average household size dropped to 2.9 persons in 1981 from 3.8 persons in 1961.

- Average real family incomes rose significantly (by over 75%) from 1961 to 1981.

- The tendency of people to share accommodation dropped dramatically over the period; the number of families not maintaining their own household dropped from over 106,000 in 1961 (7% of all families) to less than 35,000 in 1981 (1.5% of all families). At the same time, the number of boarders and lodgers declined from over 205,000 in 1961 to only 122,000 in 1976.

- The number of elderly (people aged 65 or more years) increased by over 70% and accounted for 10% of the total population in 1981 compared to 8% in 1961. The 15-34 age group, the prime household formation age group and a group which has a higher than average propensity to rent rather than own, increased by almost 80% during the period and accounted for 35.4% of the total population in 1981 compared to 27.4% in 1961. The number of people aged less than 15, tomorrow's prime household formation age group, dropped by 6% over the period.

### Housing Stock Changes

- There was a significant increase in the proportion of Ontario's housing stock which was rented rather than owned; in 1961, less than 30% of the stock was rental, while by 1981, rental units comprised almost 37% of the stock.

- The vast majority of the additions to the rental stock were high-rise apartments. Less than 20% of the pre-1961 stock of rental apartments was located in buildings of 5 or more stories, while in 1981 40% of Ontario's rental housing stock was comprised of units in buildings of 5 or more stories.

- From a macro point of view changes were less evident on the ownership side of the market. The single-detached dwelling, which comprised 86% of the total ownership stock in 1961, comprised a slightly lower, but still dominant, 81% in 1981. Despite this apparently slight change on the ownership side as a whole, the character and location of the dwellings added in the 1960's and 1970's were different from previous years. There was substantial growth in average dwelling size and a dramatic expansion of suburban communities compared with central areas. This trend has slowed in recent years due to energy and affordability considerations.

- These housing stock changes did not impact all parts of Ontario equally. The trends and the current housing stock in large rapidly growing areas such as the Toronto and Ottawa metropolitan areas (especially the central municipalities in these areas) are different from those in smaller centres.

- The period since mid-1979 has seen a fundamental change in the housing market across Canada. The high and volatile interest rates which have characterized this period combined with the current serious economic recession have created a dramatically new environment for housing. Affordability for ownership housing, which had been improving throughout the 1960's and 1970's took a dramatic turn for the worse from mid-1979. Homebuyers and mortgage renewers faced a substantial increase in both real and nominal mortgage interest rates (and payments) during this period. Many potential homebuyers, who in the past might reasonably have expected to be in a position to buy a home, have found that they were simply unable to afford to purchase a home. Many others, though able to afford to purchase a modest dwelling, have had to lower their expectations considerably.

- Rental markets across Ontario are in disarray as a result of market rents being way below what it costs to build new rental housing. This has resulted from:

  - the imposition of rent review in 1976;
  - the escalation of mortgage interest rates since 1979; and
  - the fact that the substantial ARP, MURB and ORCL subsidy arrangements for investors in rental housing were cancelled.

  Because of this, there is a severe shortage of affordable rental accommodation in most centres in Ontario and there is little real prospect that the situation will improve in the near future.

- A final trend which has perhaps been evident for longer than 2-3 years but which has certainly strengthened during this period has been the movement towards living closer to the central parts of larger urban areas because of a variety of reasons - chiefly related to lifestyle and convenience considerations as well as the increased costs of energy

and hence commuting. Because of this movement, a premium has been placed upon the centrally-located housing stock relative to suburban housing.

- **How are Ontario's housing stock and population likely to change in the 80's & 90's, and how much and what types of housing will be required to accommodate the future population?**

  - Many of the trends evident from the 1960's and 1970's will continue in the next two decades. However, the factors (primarily economic) which have struck heavily in the past 2-3 years, combined with changing demographics, point to some changes in housing demand patterns in the 1980's and 1990's.

  - As noted, the homeownership market has been profoundly affected by the events of the past 2-3 years and while affordability has improved over the past few months and can be expected to continue to improve as interest rates decline and the economy recovers, both first-time and move-up buyers will be much more cautious and conservative about overextending themselves in the future. Because of this, there will likely be a higher demand for more modest types of ownership housing in the 1980's than would have been anticipated from an examination of the underlying demographics alone. Affordability itself is unlikely to reduce significantly the overall demand for ownership housing in the 1980's and 1990's.

  - The shortages in the rental market seem unlikely to abate until either a widespread subsidy program for private landlords is put in place or rents are allowed to rise significantly. In either case, affordability for some renters will continue to be a problem until governments institute a viable assistance program targetted at needy tenants.

  - Average annual population growth in Ontario is projected to decline from 92,200 persons between 1971 and 1981 to just over 60,000 people between 1981-1991 and to just over 30,000 in 1991-2001.

  - Average annual household growth in Ontario is projected to decline less dramatically from 74,200 between 1971-1981 to an average of about 55,000 households annually between 1981-1991. Between 1991-2001, average household growth is projected to drop to an average of less than 35,000 annually.

  - The post-depression baby boom population will have aged into the 35-54 age group by the year 2001, thus swelling the ranks of those households that predominantly tend to own their dwellings.

  - The elderly (people aged 65 year or more) are projected to increase by more than 50% to a total of 1.3 million by 2001. This is 14% of Ontario's projected 2001 population compared to 10% in 1981.

- A progressive decline is projected in the number of people in the 15-34 age groups throughout the next 20 years from over 3 million in 1981 (35% of the population) to only 2.5 million in 2001 (26% of the population). These are the main household formation age groups and their decline is closely related to the declining overall rate of household growth in Ontario.

- Non-family households will continue to account for a significant proportion of overall household growth. However, primarily because of the declining number of people in the 15-34 age groups, they will not be as important a component as they were in the 1970's when they averaged growth of almost 33,000 households annually. In the 1980's, non-family household growth is projected to be less than 17,000 annually, while in the 1990's it is projected to decline to about 9,000 households annually.

- Family households, on the other hand, are projected to grow at similar rates in the 1980's (about 39,000 annually) to what occurred in the 1970's (41,500 households annually). Family household growth in the 1990's is projected to decline to an average of about 25,000 households annually.

- Average household size is projected to continue to decline over the next twenty years, though at a less dramatic rate than has occurred in the last twenty years. By 2001, average household size in Ontario is projected to be 2.5 persons compared to 2.9 in 1981 and 3.8 in 1961.

- The tenure pattern (if preferences remain as they are today) in Ontario is projected to lean more heavily towards homeownership than in the recent past; 72% of net household growth in the 1981-2001 period is projected to be for ownership housing compared to 64% in 1971-1981. This could result in continued pressure for costly fringe development.

- Rental housing is still projected to account for significant volumes of new housing demand in Ontario, especially in the next ten years. Rental household growth is projected to average 18,500 units annually in 1981-1991, before dropping to 6,400 units annually in 1991-2001. These figures could increase considerably depending on the ability of the homeowner group to get into or stay in the ownership market. Similarily, if rents are permitted to increase more dramatically than in the past few years, demand for rental accommodation may decrease as certain households decide to enter the home ownership market.

- As with the past two decades, these trends will not impact all parts of Ontario equally. The growth will occur mainly in the centres with strong economic growth prospects - in particular the Toronto and Ottawa metropolitan areas. Much of the demand in these centres will, in turn,

be more focussed on the centrally located parts of these urban areas than was the case in the 1960's and in the first half of the 1970's due in part to lifestyle preferences and to higher transportation costs.

- **What role could Ontario's existing housing play in meeting future housing needs?**

  - Additional units of both ownership and rental housing will be required in Ontario throughout the next two decades.

  - Despite the projected growth and the changing characteristics of the occupants of the Province's housing stock over the next twenty years, it is important to bear in mind that the housing stock in place in Ontario in 1981 will still account for approximately three-quarters of the total housing stock in the year 2001. If this stock is used flexibly and efficiently, it can continue to provide cost-effective housing and might help to solve some of the current housing problems faced by renters and homeowners. Certainly, in view of the high costs of replacement housing, conservation of the stock is a definite plus in terms of the continued affordability of both rental and ownership housing.

  - Conversion and certain forms of infill development would appear to be a viable answer to some of the problems facing the housing market today and in the foreseeable future.Affordability for homeowners (and homebuyers) could be enhanced by conversion of their dwelling to add more occupants with the resulting rent revenue making the difference between being able to afford to own and having to rent.

  - Rents on converted units or shared dwellings could be significantly lower than rents for newly-built apartments and could thus solve an affordability problem for many renters.

  - It is clear that conservation of our existing stock is an important issue. The costs of conserving this stock could be substantial, however, compared to the replacement costs they are usually justified. A particular area of concern in this regard is conservation of the large stock of high-rise apartment buildings constructed over the past 25 years. There is relatively little currently known about conservation of these buildings and they now comprise 40 percent of Ontario's rental stock. Significant conservation costs or losses of this stock with replacement by costly new buildings would have a dramatic impact on a large number of renters.

  - In addition to the continued need for affordable housing, there is little doubt that the current financial constraints on governments at all levels will also continue. All public expenditures will need to be reviewed in light of their cost-effectiveness and the strained financial circumstances in which governments find themselves. These

circumstances will affect not only the ability of the senior levels of government to finance costly housing support programs (such as subsidies to rental developers or shelter allowances), but will also affect municipal governments in planning their municipal infrastructure expenditures. Efficiency in the provision and utilization of services will be an important consideration in municipal finance in the 1980's and 1990's.

. Conversion and infill could be of significant financial benefit to society by reducing the requirement for costly new land development schemes and through more effective use of the existing urban infrastructure.

- Existing municipal by-laws, official plans and development approval practices and procedures constitute a major constraint to realizing intensification opportunities to any major degree throughout the Province. The only effective and feasible way of removing these constraints and realizing the considerable potential that does exist is for each and every municipality to make a decision in principle that intensification is a viable alternative approach to meeting future housing needs and to commit themselves to making the necessary changes to remove regulation and procedural constraints that are currently in place. Such changes take time and will not happen in a uniform or consistent manner across the Province. Optimistically we would allow a minimum of 4-5 years for such changes to be put into effect to any substantial degree.

. Third, if the potential of the intensification approach in meeting future housing needs is to be realized, the Province will have to take the lead role. We are by no means suggesting by this that the full responsibility lies with the Province. Indeed, as we point out in the following recommendations, muncipalities have a major role to play. But many of these municipal initiatives will require some catalytic measures to be taken by the Province.

. Finally, we would point out that, in our view, minimal conversion activity will take place until the proposed Renovation Code is put into effect as a Part 11 amendment to the Ontario Building Code. We feel strongly that the Province should move quickly in this regard.

1) General Policy Initiatives

. Adopt and give considerable emphasis to neighbourhood intensification as one important housing provision strategy for the 80's.

. Conduct a review of any and all existing policies, programs and legislation in the housing and municipal affairs related areas to assess impact on intensification. For example, the Province should undertake a detailed review of its many grants to municipalities to assess their compatibility with the objective of encouraging more infill and conversion housing to be built and to adjust the grants accordingly if they are not at least neutral with respect to this objective. Similarly, the Province should review and revise the Landlord and Tenant Act to ensure that it reflects the intrinsic difference between a conventional absentee landlord and an owner-occupant landlord and the added risks the latter takes in becoming a landlord in terms of the quiet and uninterrupted enjoyment of his or her place of residence. A final example relates to the Assessment Act and the need to review the extent to which current assessment practices with regard to the treatment of owner-occupied converted dwellings could act as a disincentive to home owners who may be considering converting their home to a duplex or triplex.

2) Promotion And Program Initiatives

- Develop a promotional strategy and campaign to heighten the awareness of municipal officials regarding the community benefits of conversion and infill activity and encourage municipalities to undertake a review of their official plans, zoning by-laws and development approval procedures with a view to minimizing the constraints these pose to conversion and infill and to maximize the opportunities for intensification.

- Develop financial assistance programs to encourage and assist municipalities in:

  - undertaking a review of their official plans, by-laws and development approval procedures and practices as they pertain to residential intensification and to make appropriate adjustments/revisions to encourage these types of activities
  - undertaking regular infrastructure capacity studies to determine and monitor levels of efficiency and excess capacity
  - establishing a housing development process facilitator position to assist homeowners in undertaking conversion and infill activities
  - monitoring the level of conversion and infill activity and reporting to the Province.

- One specific tactic that the Province could employ to not only encourage or solicit the cooperation of municipalities but to test out certain assumptions concerning conversion and infill would be to mount a series of demonstration projects in the case study areas considered in this analysis.

- Develop a promotional strategy and campaign to heighten the awareness of homeowners (particularly young couples, empty nesters and seniors) and prospective homeowners of the benefits/advantages of conversion. Such a strategy and campaign should promote the conversion options which are most in line with what tenant groups in the Province would be most apt to rent and should begin to dispel reservations that the homeowning public may have towards conversion related to costs, approvals, construction and renovation and landlord and tenant relations, rent review, capital gains and other income tax implications and property assessment.

- In conjunction with its promotional efforts with regard to homeowners and prospective homeowners, develop specific information packages for homeowners to assist them in understanding:

  - the physical opportunities available to them with regard to converting and/or adding to their home
  - how to go about planning and carrying out a conversion with respect to gaining approvals, hiring a contractor, financing the

renovations and renting out the space
- financial benefits that could be available to them
- the property and income tax implications of converting and renting out part of their home.

. Develop an information package for contractors with regard to procedures to follow in dealing with homeowners and municipal authorities in carrying out a conversion.

. Encourage conventional lending institutions to review and alter their mortgage lending practices so as not to discourage homeowners, prospective homeowners and others from undertaking conversions. In order to facilitate private investment, the Provincial Government could consider a proposal whereby the risk factor under current circumstances could be reduced with the introduction of mortgage insurance packaging.

The proposal would involve the following steps.

1. Establishment by the mortgage insurance firms of a plan whereby an additional premium of, for example, of 1 percent would be charged to an applicant requiring both interim and completion loans for renovation purposes. In turn, private lenders would then provide the capital but the risk would be with the mortgage insurer.

2. In order to establish such a plan, a reserve must be developed to finance defaults. Senior officials of the Mortgage Insurance Co. of Canada have estimated that the value of defaults would exceed the aggregate value of premiums until approximately the end of the 5th year. They are quite keen on such a scheme but have asked that the Province consider providing a reinsurance fund for that initial five year period until the reserve could be self-sustaining.

3. The maximum estimated cost of the reinsurance would be about $2.5 million per year or a total of $12 million for the five year period. These estimates are based on a minimum $100 million renovation expenditure per year or $500 million over 5 years. These expenditures could create almost 26,000 man years of employment.

It would be very consistent for the Province to share the initial risk with the private sector since renovation activity has a very high job creation factor which, in turn, would provide Provincial revenues through direct and indirect taxes on materials, personal incomes and retail products.

3) Legislative Initiatives

. Ontario Building Code: As noted above, the draft Renovation Code: Part II should be brought into effect immediately and be applicable to all existing illegal dwellings In this regard, the discretion of the Chief Building Official with respect to compliance with Code requirements should be made sufficiently broad to allow departures from Code requirements provided life safety levels are maintained. As drafted, Part 11 contains "compliance alternatives" for consideration that are considered equal to existing safety requirements. An applicant may, subject to certain conditions, match existing levels, use compliance alternatives, suggest alternatives for consideration, or comply with the Code "to the fullest extent practicable." The level of the life safety in a renovated building is to be equal to or better than that existing in the building prior to renovation. The directives "equal to" and "to the fullest extent practicable" are subjective and do not have upper or lower limits. It remains to be seen, upon enactment of Part 11 how reasonably and flexibly its directives are implemented, keeping in mind the need for minimum levels of safety, even in renovation work.

. The Planning Act: The authority of the Committee of Adjustment under the new Act (Bill 159) includes the granting of minor variances from the zoning by-law. (Section 44 (i)) It is suggested that the present requirements prior to granting a minor variance should remain, although with a significant change at the municipal by-law level that would have considerable impact on Committees of Adjustment. The four pronged test to be met by the applicant to the satisfaction of the Committee will remain as it is at present, namely:

1) The variance is minor from the provisions of the by-law and (2) is for an appropriate development (3) that complies with the general intent and purpose of the by-law and (4) with the official plan, if any.

At the present time any application involving any small variation from the requirements of the by-law, no matter how minor, must go through the Committee of Adjustment process.

To facilitate conversion of the existing residential stock, the municipal by-laws should be amended to include provision that for purposes of renovation and conversion, an application for conversion purposes involving an already built structure with variances from the by-law of less than a certain percent (for example 5% to 10%) relating to such matters as yard setbacks, area of parking stations, and height of the building, to list the most common, shall be deemed to comply with the zoning by-law. Implementation of this suggestion will eliminate from any review process a group of units that are

basically within the scope and intent of the requirements of the by-law and official plan.

- Landlord And Tenant Act: The Landlord and Tenant Act applies to all residential tenancies, notwithstanding any contract to the contrary between the parties. In recognition of the special nature of tenancies in relatively small, owner-occupied dwellings, the Act requires amendment. The traditional common law which had developed prior to the enactment of the present Act was protective of property owners and landlords' rights almost to the exclusion of those of tenants and it is fair to say that the legislature enacted the Act in large measure to protect the tenants from the more draconian aspects of the common law. As a result of the present Act, many small property owners, especially owner occupants, realistically fear they will not be able to get rid of bad tenants in an expeditious manner. One route to amending the Act is to include a section to the effect that the Act does not apply to owner occupied dwellings containing three or fewer rental units. The anticipated criticism of this approach will be that this would render a group of tenants unprotected by the Act and throw them back on the harsh provisions of the common law.

  Another route to amending the Act would be to tighten the reasons for termination of tenancies and to shorten the time periods. Speedier termination for non-payment of rent could be achieved by shortening the present waiting periods before a landlord may act to evict a tenant and by providing that repeated non-payment or late payment of rent would provide a reason for summary termination, bypassing the present cumbersome procedure. At present a landlord can be stuck with a non-paying tenant who brings himself into compliance with the Act, thus avoiding termination, by paying back rent only when the landlord goes to the bother and expense of commencing proceedings.

  Although the present forms that are provided are straight-forward and easy to fill out, many landlords' attempts to evict tenants fail due to technical flaws in the forms and to flaws in how notice was given. Consideration should be given to simplifing these requirements in the Act even further and to permitting amendments to flawed notices and forms, not to deprive tenants of protection but rather to permit the court to deal with the equities of the case. The opportunities to amend pleadings in the Provincial Offences Act are examples of the Legislature permitting great flexibility in this type of matter.

  Any amendment to the Act permitting owner-occupants of small properties containing rental units to contract out of the Act with their tenants is not recommended, as it would protect only these owner/occupant landlords who are relatively sophisticated, and would put a burden on those owner/occupant landlords who are perhaps most

in need of protection from that small percentage of exploitative and manipulative tenants most likely to take advantage of elderly, naive landlords.

. **What actions would we recommend that municipal governments take to minimize the constraints and maximize the opportunities for intensification?**

1. Ontario municipalities should undertake an evaluation of their future housing needs and housing opportunities from the point of view of the role serious intensification activities could play in meeting these needs and if warranted, undertake an analysis to identify areas of opportunity within existing neighbourhoods for intensification.

2. Having identified areas of opportunity, official plans and zoning by-laws should be revised to permit conversion and infill in these areas "as of right". In doing so:

   - Every attempt should be made to avoid the inclusion of criteria or specifications in any definition of a converted dwelling or a converted dwelling unit.

   - Age restrictions related to conversions should be removed from by-laws, letting the other requirements of the by-laws and market demand govern conversion.

   - Any requirements or standards with regard to external appearance, if made, should be of a specific and objective nature and not open to subjective judgements.

   - Wherever possible the specification of minimum, maximum or average unit sizes should be avoided. (The O.B.C. minimum which is predicated on the basic issues of health and safety is sufficient). Whether or not O.B.C. minimum sized units would result should be left to traditional market forces or the specific needs of the owner-occupant.

   - Any parking requirement established for converted dwelling units should be the result of a study of car ownership levels in the municipality with the understanding that in most cases a realistic parking requirement for modestly-sized converted units will invariably be less than half that required for the standard dwelling unit and that special attention be given to the requirements of the older homeowner who may not own a car at all.

   - Those aspects of by-laws dealing with how parking is to be accommodated on a site should be studied and revised from the point of view of providing less restrictive and more creative options. Again, any requirements that are established should be specific so as to facilitate an "as of right" system.

- By-laws should be changed to take out any reference to the maximum number of units that can be created through conversion or infill letting other constraints and performance standards, such as parking, unit and density controls determine the number of units to be created in a converted dwelling house for on an existing site. In our view the issue is not unlike that of unit size and should be determined by the economics of the market place as well as standards established on the basis of health and safety.

3. With regard to the future treatment of existing illegally converted dwellings, municipalities should consider adopting one or more of the following alternative approaches:

   - a general amnesty for all illegally converted dwelling units insofar as matters of zoning are concerned;
   - a selective relaxation of various performance standards such as density, parking, prohibitions against external appearance, etc.; and/or
   - relaxation of the prohibition against habitation in units which have been located below grade in cellars and basements.

4. In conjunction with reviewing and revising official plans and zoning by-laws as they pertain to intensification, with a view to encouraging these types of activities, municipalities should consider:

   - developing a public relations/promotion/education campaign directed at specific neighbourhoods to increase public acceptance of the municipality's objectives re. intensification and thereby reduce the likelihood of resistance to these initiatives.
   - establish a housing development process facilitator position at City Hall to assist homeowners who wish to undertake conversions.

## PART 4: CONSERVING THE EXISTING RENTAL STOCK

### INTRODUCTION

- **What role will the current rental stock play in meeting the housing needs of Ontario in the 80's and 90's?**

  - The existing rental stock in Ontario (as with the total housing stock) is an important and extremely valuable asset which is performing an essential function - housing people who, through necessity or choice, have opted to live in rental accommodation rather than purchase a home of their own. The current rental stock, plus additional new rental dwellings, will be required at least to the end of this century (and likely well beyond also) to accommodate projected household growth as well as current renters. Inevitably, some of this stock will be lost through various means; but each unit lost must be replaced and these replacement units, as well as the new units which are required to accommodate renter household growth, will cost 2 to 3 times as much to build as the units lost to the stock. These higher costs will, of course, be reflected in substantially higher rents for the new accommodation - rents which many of the displaced tenants simply will not be able to afford. This, plus the lunacy of allowing an essential low-cost capital asset to degenerate or to be demolished and replaced with a high-cost capital asset, is the reason behind this study's mandate to explore ways of promoting the conservation of the existing rental stock.

- **What forces/factors have affected and could threaten the security of this stock?**

  - The reasons behind the loss of rental stock are complex and numerous and they vary in importance from centre to centre:

    - Some buildings simply are obsolete and do not provide the standard of accommodation which society dictates as being reasonable.

    - Some units are located in structures which have in the past been converted to multiple occupant use which may no longer be considered to be suitable by the current owners.
    - Some rental units are individually owned units (grade-related dwellings or condominiums) which can revert back and forth between rental and owner-occupation upon sale or the changing circumstances of the owner.
    - In many cases, however, rental units are being lost because the current economics of the rental market are such that many private landlords can make greater returns by disposing of the properties through sale, conversion to condominium or demolition and replacement with new buildings and investing their money elsewhere.

The economics of the rental market are such that prevailing market rents are well below the rents which would be necessary to carry today's construction and financing costs for a new rental property - unless the government is prepared to contribute a significant subsidy. As was outlined in the section on the economic and demographic environment, the reasons behind the problems in the rental market are fairly straightfoward - even if the solutions to the problems are difficult:

- Rent review: clearly, the imposition of rent review in 1975, at a time when rental markets were tight and rents were rising, has served to keep market rents below what would have been the case in their absence. It is tempting for many observers to blame the entire rental market imbalance on rent review but this is not the case, other factors have contributed as well.

- Lower subsidies to rental investors: in an effort to spur rental construction in the late 1970's and early 1980's, the federal and provincial governments initiated substantial subsidy programs for investors in rental accommodation. These subsidies were very costly but they resulted in large numbers of new rental projects which had rents well below what would have been possible in the absence of the subsidies. An important impact of these programs from the point of view of the rental market as a whole was that they relieved the pressure for a strong upward movement in rents that would have occurred if the market had been left alone. Most rental subsidy programs have now been discontinued so new rental projects require markedly higher rents than those built even 2-3 years ago with the subsidies.

- High mortgage interest rates: the combination of decreased rental subsidies and the explosion in interest rates in 1979-1982 have dramatically increased the rents which would be necessary to cover costs on a new building or a building facing renewal of its mortgage.

As a result of this combination of factors, new rental units are coming onto the market at significantly higher rents than the units in existing rental projects. New production is weakened because the demand for new units is constrained by the substantial gap between the rents on these new units versus the prevailing rents in the existing stock. Landlords in the existing stock, meanwhile, have had their profits constrained below what they would be in a free market. This can result in either acceptance of the status quo (6% annual rent increases, or more if they can prove that their costs increase by more) or some action which might increase their profits. This latter course could mean one of the following:

- Sale to another landlord can increase profits since, by the rules of the rent review process, the purchaser can pass through an increase

in rents as a result of increased financing costs. The ability of the new landlord to pass the higher rents on to the tenant is the key behind this process since the higher rent stream will increase the value of the property - the existing landlord could not pass on such higher financing costs.

- Conversion of multiple unit rental properties to condominium tenure can bring vastly increased values for existing rental properties since the sale prices are more closely related to dwelling replacement costs than are market rents. This avenue has been closed in most municipalities through regulations which place limitations on the ability of owners to convert existing rental properties to condominiums because of the tight rental markets.

- Postponement of normal maintenance or conservation expenses (and minimization of other expenses) can result in higher returns. Landlords can increase rents beyond 6% if they can justify the increase because of increased costs - but increased profits cannot form part of the justification and the procedure is tedious and uncertain. If cost increases can be held below 6 percent, profits will increase - profit-maximizing landlords will, therefore, have good reasons to try to minimize outlays of all kinds. There is a real danger that essential maintenance and conservation expenses on rental buildings are being postponed because of this.

- Demolition and sale or redevelopment can make economic sense in some cases as well. If a rental building is old and substantially depreciated (for tax purposes), and is in a location where a newer residential or commercial building could be successfully marketed at substantially higher rents, it may be worthwhile to demolish the existing building and replace it - even if it is of reasonably good standard. Tax rules can further this process because if a property is substantially depreciated (for tax purposes), sale of the property at a higher price could face the landlord with recaptured depreciation on the building which is taxed at twice the level of capital gains tax on the increased land value. If the building is demolished and replaced, all increased value accrues to the land and the landlord would face no recapture of depreciation. Also, if the new building is in a good location, which much of Ontario's older rental stock is, the site could probably support a quality rental or condominium building with no control on returns.

. There are, real concerns that, at a time of tight rental markets in most Ontario centres, much of the existing stock of rental units is at risk because of the types of factors outlined above. Owners of rent controlled units are frustrated because their profits are being suppressed with no real prospect of significant change. Prospective investors in both new and existing rental accommodation are investing elsewhere because immediate returns are better and there are no

artifical constraints on future returns. Tenants are frightened because it is difficult to find alternative accommodation at rents they feel they can afford. There is evidence of some deterioration in the upkeep of existing rental properties which, in addition to detracting from their attractiveness and utility as places to live, may be shortening their effective life.

. Conserving the existing rental stock is an important issue today. We simply cannot afford to lose the current stock of rental housing when it is clear that both this stock and even more will be required at least to the end of this century. This section attempts to address this issue by examining the extent of rental stock loss in recent years and the social impact of this loss. Also, it examines the costs which we as Ontarians must face to conserve the 434,000 high-rise rental apartment units in the Province over the next 20 years,the types of options open to landlords of today's stock in meeting these costs and the likely impact on tenants of future conservation costs of high-rise rental properties.

## 4.1 RECENT RENTAL STOCK AND THE IMPACT OF DECONVERSION

### 4.1.1 Recent Rental Stock Losses

. **How much and what type of rental stock has been lost in the past few years in the case study areas?**

Toronto

. A significant amount of rental stock was lost in the City of Toronto in the 1976-1981 period. Some of this loss occurred as a result of demolition or conversions of rental dwellings to non-residential uses, but more significant was the loss of rental stock due to deconversions which occurred primarily as a result of the process of gentrification.

. The occupied dwelling stock in the City of Toronto increased by 6,300 units over the 1976-1981 period. The increase was concentrated in the owner-occupied and tenant-occupied properties which each increased by 7,500 units or more; the owner-tenant category (the category with converted units) declined by 9,400 units. These overall changes mask a number of distinct trends within the existing stock. Among the most notable of these trends during 1976-1981 are:

- 8,200 dwelling units were lost from the total stock which was in place in 1976:

- 3,100 of these units lost were in properties which were either demolished or converted to non-residential uses;

- The remaining 5,100 units lost represented mainly net deconversions of buildings from multiple unit occupancy to single unit occupancy

- These units lost were more than replaced by the construction of new properties which added 15,400 new dwelling units during the period so the overall increase in dwellings was 7,200 units.

- A substantial amount of deconversion activity occurred during the period in the 45,000 units that were owner-tenant properties in 1976. As of 1981, 22,100 of these units were still classified as owner-tenant properties. Of the remaining 22,900 units, 11,000 units had switched to owner-occupier status with no tenants, while 5,600 units had changed to totally tenant-occupied. About 5,700 units were lost due to demolitions, deconversion or conversion to non-residential uses.

- Offsetting the number of dwelling units lost in previously owner-tenant buildings, a number of previously totally owner-occupied or tenant-occupied properties switched to the owner-tenant category between 1976-1981. In 1981 there were 7,000 owner-tenant units in what previously were owner-occupied buildings and 5,900 owner-tenant units in what previously were tenant-occupied buildings. Unfortunately, it is not possible to establish how many new units were created in this process but it seems certain that at least some of these units are newly created second or third units in what was previously a one unit property.

. Switches of tenure between owner-occupied and tenant-occupied properties largely offset each other in 1976-1980; 4,900 units switched from owner-occupancy to tenant-occupancy while 5,800 units switched from tenant-occupancy to owner-occupancy.

. Clearly, there was a severe decline in the owner-tenant dwelling stock between 1976-1981 with many of the dwellings being deconverted to owner-occupant use. The loss of these units has occurred for a number of reasons including the process of gentrification. The net effect of the trend to smaller household sizes, gentrification and deconversion has been a decrease in the number of dwelling units in the existing housing stock. Replacement of these deconverted units with conversions or new units was insufficient to offset a marked decline in the owner-tenant stock in the 5 year period.

. It is evident that, despite the 11,300 new units added to the rental stock between 1976-1981, rental stock losses due to deconversion, demolition or conversion to owner-occupancy status have resulted in only a relatively small increase in the total rental stock in the 5-year period. Taking the owner-tenant and tenant-occupied categories together, there was only a 1,900 unit increase in the stock between 1976-1981.

- Owner-occupied stock on the other hand increased by 8,200 units despite the fact that only 2,700 new owner-occupied units were added between 1976-1981. The majority of the discrepancy is comprised of switches from the owner-tenant category. It is evident that deconversion of this owner-tenant stock is occurring throughout the City; however, the most active wards (in terms of deconversions) appear to be Wards 3, 4, 5, 6 and 8. The wards with the majority of the owner-tenant stock are Wards 1-5 with two-thirds of the stock in 1981; but all wards have a least some owner-tenant properties.

- The HOAS information presented above does not specifically identify total or rental stock losses due to demolitions or condominium conversions. Demolitions are included in the category "Demolitions and Conversion to Non-Residential Buildings" which totalled 3,100 units in the City of Toronto over the 1976-1981 period; 1,600 of these units were tenant-occupied in 1976. Statistics provided from another data source within the City of Toronto Planning and Development Department indicate that demolitions of dwellings of all tenure types during the 1976-1981 period totalled 1,413 dwelling units. So, clearly, almost as much stock is being lost through conversion to non-residential uses as through demolition. Condominium conversions are included in the 5,800 dwellings which were tenant-occupied in 1976 but which had switched to owner-occupancy by 1981 (though some of the condominium units which resulted would, no doubt, have been subsequently rented out). According to the City of Toronto Planning and Development Department, there were a total of 638 units converted from rental to condominium tenure in the City of Toronto in the 1976-1981 period. It appears that except for condominium conversions, switches from ownership to rental almost balance the switches the other way. In total, relatively little rental stock was lost in Toronto because of demolitions and condominium conversions.

- Assuming that all row and apartment demolitions and half of other demolitions are rental units, the rental stock losses from both demolition and condominium conversion in four of the other five case study municipalities have been relatively small:

North York

- Only about 600 rental units were lost over the 1976-1981 period due to demolition and a further 526 units were lost due to condominium conversion; this combined loss of 1,126 units represented 1.2 percent of the 1981 stock. Despite these losses, the total occupied rental stock in North York increased by 7,600 units in the 1976-1981 period.

Hamilton

. Rental stock demolitions between 1976-1981 are estimated at about 450 units with a further 1,591 units lost due to condominium conversion; the combined loss of 2,041 represents just over 4 percent of the 1981 rental stock. Hamilton's occupied rental stock increased by 4,200 units between 1976 and 1981.

Ottawa

. About 500 rental units were demolished between 1976-1981 with condominium conversions totalling 238 units; the total estimated rental stock loss due to these factors (738 units) represented only 1 percent of the 1981 rental stock. The occupied rental stock in Ottawa increased by 5,250 units during the 1976-1981 period.

Kingston

. About 80 rental units were demolished and a further 108 units were converted to condominiums over the 1976-1981 period; the combined loss of 188 units from these sources represents about 1.5 percent of the 1981 rental stock. Kingston's occupied rental stock increased by only 200 units between 1976-1981 so replacement of these lost units represented about half of the new production.

. Clearly, rental stock losses in our case study areas due to demolitions and condominium conversions have been marginal between 1976-1981. However, it must be borne in mind that condominium conversions are now severely restricted in most centres and, if such restrictions were not in place, substantially more conversions would likely occur. It must also be recognized that each of these units lost either through demolition, condominium conversion - or deconversion of grade-related dwellings - must be replaced by a high-cost and high-rent new unit with consequent impacts not only on trends but on society as a whole.

4.1.2 Social Impact of Recent And Future Grade-Related Rental Stock Losses

. **What is gentrification and why are we concerned about it?**

. An examination of the potential and constraints faced in increasing Ontario's housing stock through the conversion of existing homes within well established and fully developed cities, cannot be considered complete without a thorough examination of the opposite process, i.e. the process of deconversion of existing multi-unit homes into homes that contain few units or a single family only. This process of deconversion, known as "gentrification" or "white painting", is a well established phenomenon in many of Ontario's larger cities. Directly related to this process is the loss of housing stock due to changes in

land use from residential to commercial and the demolition of houses to make way for other types of development.

- The process of gentrification has created both positive and negative results. It is important to understand both of these results as an integral part of this study which seeks to intervene in the process of existing neighbourhood change. It is particularly important to understand the negative effects of gentrification in order to seek solutions where these are necessary and to ensure that any potentially negative results of encouraging conversion are understood and taken into account before new programs are proposed.

- **What have been the effects of gentrification?**

  - The present difficult economic conditions have combined with the process of gentrification, or more importantly deconversion, to produce both social and housing crises for a growing population in our society. This population consists of those socio-economic groups which have traditionally found refuge in inner-city accommodation such as rooming houses, multiple unit houses, older apartment buildings and older hotels. This type of housing is disappearing and is not being replaced as a result of a number of factors, including gentrification.

  - Many rooming houses have been wiped out through gentrification and building code enforcement.

  - The neighborhood in the process of gentrification often becomes hostile to existing rooming houses and old hotels, and is particularly hostile to allowing new ones.

  - Virtually no new rooming houses are being created as the returns will not justify the investment. There is general agreement that the private market is rapidly and permanently disappearing as a source of housing for low income single people and families. Municipal non-profit housing corporations such as Cityhome in Toronto and City Living in Ottawa are no longer permitted to purchase existing rooming houses. The present non-profit program would not allow all rents in a given building to be sufficiently low to accommodate single people in need, even if the non-profit agencies were again permitted to purchase such buildings. In any event, single people below the age of eligibility for senior citizen housing do not qualify for the rent supplement program.

  - Amendments to the Landlord and Tenant Act which granted strong security of tenure protection to tenants have discouraged many home owners from renting out rooms, particularly in their own homes. According to room registry agencies, small landlords are easily discouraged by one bad experience such as considerable frustration and delay in getting a troublesome tenant to move out. They often choose to keep the space empty rather than risk another bad experience in their own home.

- As a result of the drastic shortage of affordable housing, many people are living permanently in emergency hostels. The hostel is an important needed part of the housing system but it should not be allowed to become a permanent solution to the housing needs of low income persons.

- **Which tenant groups are at risk?**

  - While the housing pressures affect all those with low incomes in our society, the key informants were particularly concerned with communicating the needs of the single person group, which unlike groups such as single parent families for whom the pressure is equally great, has no permanent form of housing provided by government assistance and is forced to rely exclusively on the private market or emergency shelter.

  - Many of the key informants have segmented the low-income single person group into a number of sub-groups. Often voluntary agencies have defined one such sub-group as a special focus for their particular agency. The sub-groups include men, women, the skid-row person, ex-psychiatric patients who were recently released from mental hospitals as a result of government policy, ex-convicts, mentally retarded, physically disabled, younger people, etc.

  - The proportion of young people in need of both long-term permanent housing and temporary shelter has apparently increased dramatically over the past 2 or 3 years among both men and women. This is a sub-group not normally associated with the traditional skid-row population, yet they are now shoulder-to-shoulder competing for the same shelter and assistance. The release from mental hospitals of a large number of psychiatric patients into the community has added to the number relying on the system. These relatively newer sub-groups have put considerable pressure on those who have traditionally relied on the dwindling supply of cheap rooms, hotels or hostels for many years.

  - The more recent arrivals on the scene such as young singles and ex-psychiatric patients have attracted more voluntary assistance. They are seen by some as a group of 'deserving poor' rather than the longer term 'non-deserving poor' who are easily identified or labelled as a skid-row problem. Yet it was strongly argued by many of the key informants that the whole group of low-income singles must be seen as being in some way socially disadvantaged and in need of "special" help. The mere fact of having no work, no family network and no permanent shelter is sufficiently damaging to make a person 'marginal'. It was agreed that there is a real danger in sub-grouping the low income single group and singling some out for special attention. Instead it was made clear that all low income singles are in the same situation. They have two urgent and serious needs in common:

- the need for permanent housing which they can afford; and
- the need for some form of support and assistance in order to help them become an integrated part of society.

## 4.2 FUTURE CONSERVATION REQUIREMENTS AND COSTS FOR HIGH-RISE RENTAL APARTMENTS AND THE POSSIBLE IMPACT ON RENTS AND TENANTS

### 4.2.1 Future Conservation Requirements And Costs For High-Rise Rental Apartments

. **What will have to be done to conserve the existing stock of high-rise rental apartments over the next 20 years?**

. While the terms "maintenance" and "conservation" as they relate to buildings are sometimes used interchangeable with regard to certain issues, in fact, these terms have quite different and distinct meanings. These meanings and some illustrations of the areas of overlap follow:

. All buildings require maintenance to retain them in a stable condition whereby they can be used daily. A building simply cannot be left without attention to a myriad of individual items. These include many so called cosmetic treatments such as cleaning, decorating, and cutting grass, that are necessary to preserve the surface quality or appearance of a building. In addition to cosmetic maintenance needs, all buildings require regular upkeep or maintenance to parts of the building fabric and equipment. Such maintenance can involve regular service and minor repairs to the heating system, the elevators, safety systems, and to less apparent items like caulking and attention to roof flashings. These are all activities necessary to counter the effects of age and use on the building. Every building, large or small requires such attention.

. The process of conservation, while inextricably related to maintenance, has a different meaning and thrust. Conservation implies preservation over an identified period of time, such that the building can be safely used and enjoyed over its expected life span. This implies that measures must be taken to prevent the premature decay or loss of the building or its parts. As with maintenance, all buildings require conservation measures to prevent their premature loss through neglect or initial faulty design or workmanship. By way of explanation, a dirty wall may be unsightly but will not directly contribute to decay. The dirty wall is a maintenance item. A leaking roof may also create unsightly conditions but will most probably contribute to the accelerated decay of the very fabric of the building. A leaky roof will be a conservation as well as a maintenance item. The process of conservation in buildings is further regarded as including the activities which may be carried out to upgrade parts of the building to meet the standards of by-laws and codes which may not have existed when

the building was constructed; or to introduce elements in the building which would reflect current operation objectives such as insulation or double glazing to reduce energy consumption. In some discussions, conservation is referred to as preventative maintenance.

. The difference between maintenance and conservation is important. As a general finding, the housing management industry is most frequently concerned with maintenance rather than with conservation. The exceptions to this generalization are to be found in the public sector, and even here the interest appears to be limited primarily to concerns with human safety. While both the private and public sectors rigorously obey the laws relating to human safety, the public sector is taking positive steps to upgrade buildings to comply with current codes.

. This study is concerned with projecting the requirements and costs that might be associated with those aspects of a building which are most commonly referred to as conservation and/or preventative maintenance required to keep the building in a safe and habitable or livable condition. For purposes of the study we have referred to all of these issues as "conservation" activities. The conservation elements that were examined can be grouped into seven major categories:

1. weather protection
2. structural integrity
3. building systems
4. parking structures
5. movement systems
6. occupant safety
7. equipment and fitments

. Our conclusions with respect to future requirements of high-rise apartment buildings in these seven categories are as follows:

Weather Protection

. Conserving existing buildings in a weathertight condition remains a major problem and one which will require large future capital expenditures. Roofs, walls, and windows are all problem areas. Older buildings are often in better condition than the newer ones in this regard. As a general rule, low buildings are usually less of a problem, but there are exceptions. The industry generally was slow to take up protected membrane roofs which have demonstrated excellent long term qualities, and the poor application of wall insulation, which when used, was generally installed on the inside surface of exterior walls, will contribute to long term wall problems which are costly to correct. Poor window design and poor application of window design principals will contribute to long term costs as well. Even some new window installations in tall buildings cannot adequately resist the storm forces they are subjected to.

- Unfortunately, the retrofitting of many small buildings with increased thermal insulation in wood framed roofs has not followed good practice in the provision of air/vapour barriers or the ventilation of the roof spaces. These installations will present problems in the future which are serious and costly to correct.

Structural Integrity

- The essential structural elements of most buildings, (those elements which hold up the building), are in sound condition regardless of age and only minimum actions are required to either maintain or conserve them. The exceptions to this generalization are principally in above and below ground parking structures, some problems with balcony slabs which are supported on open web steel joist extensions, and some problems with balcony railings. The problems with parking garage structures are however, the most significant.

- Our analysis in this area identified some significant and major problems with exterior wall systems that will require costly intervention over the next 20 years. Simply put, many buildings have walls which do not sufficiently resist water penetration and diffusion. In addition, structural problems relating to shelf angles used to support unit masonry are evident in many buildings. Where problems with shelf angles exist, there are usually also problems related to the lack of vertical control joints which are costly items to repair.

- In the case of certain types of cantilevered balcony construction, extensive and costly repairs will be necessary over the next 20 years to ensure the safety of these structures. As well, major repairs for spauling and slab deterioration will be required.

- Related to the exterior wall problems noted, we must note that the deterioration of exterior masonry walls and the very real possibility of falling brick can be a hazard to human life.

Building Systems

- The electrical, heating, and plumbing and drainage parts of the buildings can be major conservation cost items. While these systems are usually reasonably maintained since the direct comfort of the individual residents is very visibly affected, changes involving galvanized plumbing piping, aluminum wiring and undersized (by today's standards) electrical services will be large cost elements for older buildings over the next 20 years. Boiler and pump replacements will constitute major cost items over this same period for all buildings. Heated ramps to underground parking garages have and will continue to contribute to high conservation costs as will improvements to lighting, sprinklers, heating and ventilation systems in underground garages.

Parking Structures

- The single most dangerous element is the deterioration which is happening to suspended garage slabs. If left, these can be a hazard to human life.

Occupant Safety

- Generally, the public sector has taken the lead in upgrading the fire safety aspects of buildings. The private sector does follow the requirements of the safety codes, but is constrained in upgrading older buildings built under less stringent codes. The constraints of rent review are most commonly cited as the reason for this.

- The needs to upgrade fire safety systems in buildings will be largely governed by codes. Many older buildings fall significantly short of meeting the fire code safety requirements applicable to new buildings. Continual upgrading and testing of Fire Safety Equipment is an ongoing maintenance problem, however, if ignored it can be dangerous.

Movement Systems

- While elevator maintenance costs are a significant ongoing maintenance cost, except for the extraordinary abuses of vandalism, the elevator systems are well maintained and will likely serve both old and new buildings for many years. Upgrading elevators in older buildings to meet current fire codes is a major cost that has not been undertaken by the private sector. Upgrading of older elevators to comply with current codes is presently not required. If this should become a requirement, these costs are major ones.

Equipment And Fitments

- Conservation costs related to building equipment and fitments, particularly kitchen cabinet and counter replacements, and major repairs to plaster work were not initially regarded as significant cost elements and our hypothetical cost model which follows does not include any of these replacement or conservation costs. However, our more detailed examination of a number of actual case study buildings has proven that these can be significant cost elements, in both public and private sector buildings.

- Our analysis of conservation requirements has lead us to conclude that there are five principal fators that contribute directly to the nature and extent of these requirements:

  - The principal reason there will be major costs involved in conserving the existing high-rise rental housing stock is the

inadequacy of the initial design and construction. Buildings which are initially well constructed using appropriate materials arranged and connected together according to best practice and using good quality of workmanship generally have lower conservation needs than do poorly constructed buildings. This point is of such fundamental importance and is so frequently encountered that special note is made of it. It applies to all aspects of construction. It includes the adequacy of the materials or equipment selected as well as the manner in which the various components are arranged in relation one to another. Good quality construction also requires that the architects, engineers and the contractors be familiar with current best practice. The construction industry through its various Associations is constantly reviewing and upgrading its knowledge of materials and the performance of these materials in the construction systems. The National Research Council through the Division of Building Research provides what is possibly the best information base to improve the quality of building construction. Little of this information reaches the ordinary workman and mechanic actually engaged in the construction process. Finally, the building financing process actually encourages low initial capital cost at the expense of future conservation costs.

- Just as initial design may have been inadequate, the inspection and review process which may be applied to a building under construction is also not adequate. Too often the official inspectors representing the lenders or the municipality do not have either the time or the knowledge to adequately inspect the work being constructed. The specialist skills of a foreman-carpenter are not adequate to review the construction of a large complex residential building. When an inspector with narrow skills can only visit the work every week or two, the possibility exists that the work may not meet the code requirements or the basics of good construction. The inspection of the work by the architects sufficient to meet the 'field review' requirements of the OBC is not sufficient to ensure the performance of the contractors actually doing the building.

- In almost all cases the persons with the responsibility for maintaining and conserving the existing rental housing stock are not the same persons who were involved in the construction of it. These persons are often administrators rather than construction professionals who are often guided by short term operating costs and a lack of sufficient knowledge of building technology. This can result in decisions which are cost effective in the short term but which can result in serious long term building problems.

- The skills of the day-to-day building maintenance personel are often inadequate to maintain a complex building with its many specialized pieces of equipment and systems. Very often, the person in charge of individual building maintenance is someone who has no special skills in building maintenance. The person may have entered this

area of employment simply because employment opportunity presented itself. At best, the person so employed will have a specialist skill in one aspect of buildings. The generalist skills of the ordinary person directly engaged with the maintenance of an individual building are usually not sufficient to grasp the problems which can exist, or to adequately present a correct solution to the problem to a building manager, who may be primarily an administrator.

- The rent review process has had an effect on the attitude which building owners take to conservation. The indication we have received from discussions with building owners is that major conservation/preventative maintenance activities are being delayed or that conservation actions are being replaced by repair and patching actions. In the long term over the next 20 years, this will have a marked negative effect on the quality of the high-rise rental housing stock.

- **What will it cost to conserve the existing stock of high-rise rental apartments over the next 20 years?**

  - Components of any building are subject to forces of wear and deterioration. The manner in which those components resist these forces is related to their age, design, workmanship and actions which may have been taken to preserve their integrity. It is difficult to estimate, with any accuracy, a definitive cost for any component without being building specific.

  - To demonstrate the possible cost implications of the types of conservation requirements described above, we have prepared a simple summary for a hypothetical building. The assumptions for the costing of conservation requirements for this hypothetical building over a 20 year period are:

    - a high-rise apartment building of 120 suites
    - 15 to 20 years of age
    - reinforced concrete structure
    - 8 to 12 floors high
    - underground parking garage of two levels
    - double wythe masonry exterior walls
    - single glazed windows

    The summary assumes that each item of work identified as an individual issue requires "average" intervention. It does not include small items of maintenance i.e. kitchen countertops, painting, bathroom tile, fitments etc. It also does not include costs related to energy conservation, site development or amenities.

| | | |
|---|---|---|
| **WEATHER PROTECTION** | | |
| Flat Roofing Systems | | |
| Conventional built-up roof system replaced 1 x + ongoing repairs | $ 96,000.* | |
| or | | |
| Inverted roofing system replaced once + minimum repairs | 67,200. | |
| Masonry Walls | | |
| Repairs - ongoing | 336.600.* | |
| or | | |
| Rain-screen cladding (one time cost) to include energy saving measures | 207,000. | |
| Windows | | |
| Storm windows added on (one time cost) with some energy savings | 78,000.* | |
| or | | |
| Replacement with new thermal glazing and sash (one time cost) | 300,000. | |
| Caulking | | |
| Ongoing programme | 10,800.* | |
| Total | | $ 521,400. |
| * option selected to include in total | | |
| **STRUCTURAL** | | |
| Shelf angles | $ 92,880. | |
| Masonry | 56,530. | |
| Balcony | 52,200. | |
| Total | | 201,610. |
| **BUILDING SYSTEMS** | | |
| Electrical | $112,710. | |
| Heating | 137,120. | |
| Plumbing | 111,825. | |
| Ventilation | 45,000. | |
| Lighting | 30,620. | |
| Total | | 437,275. |

| | | |
|---|---|---|
| PARKING STRUCTURES | | |
| Suspended slab | $ 18,000. | |
| Traffic Membrane | 64,800. | |
| Roof slab | 36,660. | |
| Expansion joints | 20,000. | |
| Ramp | 35,000. | |
| Total | | $ 174,460. |
| OCCUPANT SAFETY | | |
| Fireman's Elevator | $ 30,000. | |
| Voice Communications System | 28,800. | |
| Emergency Power | 7,000. | |
| Product of Combustion | 3,570. | |
| Total | | 68,570. |

In summary, the total costs for conserving this hypothetical apartment over the next twenty years could be:

| | |
|---|---|
| Weather Protection: roof, walls, windows | $ 521,400. |
| Structural Integrity | 201,610. |
| Building Systems | 437,275. |
| Parking Structures | 174,460. |
| Occupant Safety | 68,570. |
| Total Costs | $1,403,315. |

On a per suite or apartment basis these costs amount to $11,694.

. Once again it must be emphasized that these conservations will be in addition to the standard maintenance activities that will be required over the 20 year period including such things as painting and decorating, site development, amenity package repairs and replacements, etc.

. To test the information developed out of the hypothetical apartment building described above, we examined 5 case study buildings. With the exception of variations in the manner in which parking is provided, the case study buildings were all similar to the hypothetical building. The characteristics and per unit costs of these case study buildings are described below:

| | Ownership | Age | No. of Storeys | No. of Suites | Parking | Conservation Cost per Suites |
|---|---|---|---|---|---|---|
| Case Study 1 | Private Sector | 24 yrs. | 15 | 97 | Surface | 13,905. |
| Case Study 2 | Private Sector | 11 yrs. | 9 | 170 | 1 level underground | 6,800. |
| Case Study 3 | Public Sector Sr. Citizens | 14 yrs. | 18 | 352 | 1 level underground | 4,460. |
| Case Study 4 | Private Sector | 28 yrs. | 11 | 103 | Surface | 10,212. |
| Case Study 5 | Private Non/Profit | 14 yrs. | 22 | 160 | 1 level underground | 9,399. |

. Using the data which had been gathered, the rate of expenditure projected in 5 year periods over the next 20 years was estimated for the various case study buildings. This varies building to building and is influenced by the age of the building as well as the quality of the initial construction. These rates of expenditure were developed to provide a basis for estimating the future impact of conservation costs on rents and these impacts are presented in the following section.

### 4.2.2 The Possible Impact Of Future Conservation Costs On Rents And Tenants

. **What options do high-rise rental apartment building owners have in dealing with conservation requirements and costs?**

. Landlords know that the sorts of costs described in 5.3 do arise, so in a normal situation their planning for the project will have allowed for contingency expenses either through the build-up of a reserve fund or through expectations of future rent increases which will offset costs of this nature. In a situation where rental markets are balanced and rents are market-determined, such costs would be financed directly out of a reserve fund or out of profits since, in theory at least, the rents would be as high as the market would bear and extra costs could not be passed through to tenants without risking some increase in vacancies. Rational landlords would still undertake the work (if it is warranted) because it would be a necessary expenditure to prolong the life of the structure - and hence, would be an element in future profit-maximization.

. Clearly, such a scenario is out of place in today's rental market since:

- rents are not market-determined; many landlords could pass through significant rent increases if the rent review process allowed it;

- the rental market is not balanced; many tenants would have difficulty finding alternative accommodation and thus the necessary market restraint to compel landlords to moderate their rent demands would be weaker; and

- rent review will allow such costs to be passed through but only on an as-incurred basis. Landlords must apply each year in which costs occur so they cannot put forward a program for future conservation at one time they must endure the time-consuming and costly review process each time. Also the rent review process does not award an immediate pass-through of all costs. Depending on the life expectancy of the conservation work, various amortization schedules are applied so as to spread the compensating rent revenue across the life of the improvement. This can be a complicated process especially for a mixed bag of items such as the conservation increases described in the previous section where the life expectancy of each specific item varies from 5 years to 40 years. The overall average likely life expectancy of the conservation costs outlined for the hypothetical building is estimated (roughly) to be around 20 years. In determining the rent increase associated with each of these expenditures, both these costs plus the necessary financing costs are taken into account.

. In the current rental market, the landlord's actions will likely be different from the free market situation. Key informant interviews with landlords indicated that in many cases they have been postponing or minimizing expenditures on items such as conservation costs because of the rent review process. While landlords appear to be aware that such costs can be passed through the rent review process to be borne by tenants they are apparently reluctant to do so because of the difficult and time-consuming nature of the process, the ill-will created with tenants and a general feeling that the landlord loses as a result of the process. Despite this reluctance to undergo rent review, however, there appear to be few other options open to landlords. It seems clear that whether they like it or not, most landlords of buildings subject to rent review will ultimately be forced by economic necessity either to use the system to obtain justifiable rent increases for conservation (or other) costs or to sell to someone who will. It appears unlikely, however, that landlords will undertake major expenditures such as conservation costs on an annual basis; it would seem more sensible to minimize or postpone expenditures in most years and them lump them all together in one year - thereby minimizing the number of appearances before the rent review process but nonetheless obtaining the cost pass-through to rents which is necessary to finance the increased costs.

. **What impact would the projected conservation costs have on rents in a hypothetical high-rise building?**

. In order to estimate the likely impact on rents of the conservation costs of the hypothetical building described in 5.3 a number of simplifying assumptions were made:

- the building is under rent review and the rent review rules remain unchanged throughout the period;

- in order to minimize appearances before the rent review process, the landlord will time the work such that all the costs are incurred in 4 separate years (1982, 1987, 1992, 1997) over the 20 year study period;

- the full costs associated with the conservation expenditure are allowed to be passed through to tenants via rent increases;

- in terms of amortizing the costs for the purpose of determining rent increases, three scenarios are used; it is assumed that rent review amortizes the costs over:

  - 10 years, for one scenario;
  - 20 years for another; and
  - 30 years for another;

- the costs are financed totally through a 15% mortgage with the same amortization schedule as is dictated by the rent review process for the conservation costs themselves;

- no other cost increases are incurred in the years when the conservation costs are passed through rent review (of course, other costs would be included in most applications to rent review, however, this section is interested in the rent impacts that can be expected from the conservation costs alone); and

- all of the costs (and rents) are expressed in 1982 constant dollars.

. The following figures indicate the amortized costs which would accrue to each year in the 1982-2002 period under the specified assumptions and the resulting estimated average monthly rent increases required to pay for these costs:

CUMULATIVE AMORTIZED COSTS INCURRED ANNUALLY ($000)

| | 10 Year Amortization | 20 Year Amortization | 30 Year Amortization |
|---|---|---|---|
| 1982-1987 | 106.8 | 86.5 | 82.7 |
| 1987-1992 | 160.2 | 129.7 | 124.1 |
| 1992-1997 | 106.8 | 172.9 | 165.5 |
| 1997-2002 | 106.8 | 216.1 | 206.9 |

ESTIMATED AVERAGE MONTHLY RENT INCREASES PER UNIT ($)*

| Year of Rent Increase | 10 Year Amortization | 20 Year Amortization | 30 Year Amortization |
|---|---|---|---|
| 1982 | 74. | 60. | 57. |
| 1987 | 37. | 30. | 29. |
| 1992 | NIL | 30. | 29. |
| 1997 | NIL | 30. | 29. |

* Calculated from increase in cumulative amortized costs (e.g., 10 year amortization in 1982: [($106,800. ÷ 120 units) ÷ 12 months] = $74).

Clearly, the shorter the amortization period, the larger the immediate compensating rent increase. For the 10 year amortization scenario, there are no more rent increases after 1987 whereas, for the 20 and 30 year scenarios, the costs keep pyramiding throughout the period and, consequently, rents continue to increase as well.

. **What impact would the projected conservation costs for the two private and one non-profit case study buildings have on the current rents of these buildings?**

. For the purposes of calculating rent increases in the three case study buildings, the same set of simplifying assumptions as were made in the case of the hypothetical building were made here as well. The unit-type breakdown and current average rents of the three buildings are summarized below along with an estimate of gross revenue in 1982.

UNIT TYPES AND AVERAGE RENTS

| | Private Buildings | | Non-Profit Building |
|---|---|---|---|
| | Case Study 2 | Case Study 4 | Case Study 5 |
| Number of Units | | | |
| Bachelor | 24. | 20. | 120. |
| One-Bedroom | 58. | 80. | 40. |
| Two-Bedroom | 61. | 2. | 0. |
| Three-Bedroom | 27. | 0. | 0. |
| Total | 170. | 102. | 160. |
| Average Rents ($) | | | |
| Bachelor | 310. | 300. | 120. |
| One-Bedroom | 340. | 382. | 170. |
| Two-Bedroom | 415. | 650. | - |
| Three-Bedroom | 460. | - | - |
| Total Estimated Gross Revenue ($000)* | 740. | 432. | 242. |

* Calculated by assuming the above rents for each unit plus a 5% vacancy (or non-payment) factor. This figure will be used later in calculating the estimated rent increase required to pass through the construction costs.

According to the investigations described under Section 5.3, these buildings could face conservation costs of $1,156,000. (Case Study 2), $1,051,900. (Case Study 4) and $1,503,900. (Case Study 5) over the next 20 years. These costs will likely be incurred in different proportions in each of the periods:

DISTRIBUTION OF CONSERVATION COSTS

| | Private Buildings | | Non-Profit Building |
|---|---|---|---|
| | Case Study 2 | Case Study 4 | Case Study 5 |
| Percent | | | |
| 1982-1987 | 50. | 50. | 40. |
| 1987-1992 | 10. | 20. | 20. |
| 1992-1997 | 20. | 10. | 20. |
| 1997-2002 | 20. | 20. | 20. |
| Total | 100. | 100. | 100. |
| ($000's) | | | |
| 1982-1987 | 578.0 | 525.9 | 601.5 |
| 1987-1992 | 115.6 | 210.4 | 300.8 |
| 1992-1997 | 231.2 | 105.2 | 300.8 |
| 1997-2002 | 231.2 | 210.4 | 300.8 |
| Total | 1,156.0 | 1,051.9 | 1,503.9 |

As with the hypothetical building, the effect of these conservation costs on rents varies depending on the amortization period selected by the rent review process as the appropriate life of the improvement. The percentage increases in rents which would be required to offset the conservation costs under each of the 3 amortization scenarios are as follows:

ESTIMATED PERCENT INCREASE IN RENTS (COMPARED TO 1982 RENTS) REQUIRED TO OFFSET CONSERVATION COSTS*

| | Private Buildings | | Non-Profit Building |
|---|---|---|---|
| | Case Study 2 | Case Study 4 | Case Study 5 |
| 10 Year Amortization Scenario | | | |
| 1982-1987 | 14.9 | 23.2 | 47.3 |
| 1987-1992 | 17.8 | 32.4 | 71.0 |
| 1992-1997 | 8.9 | 13.9 | 47.3 |
| 1997-2002 | 11.9 | 13.9 | 47.3 |
| 20 Year Amortization Scenario | | | |
| 1982-1987 | 12.0 | 18.8 | 38.3 |
| 1987-1992 | 14.4 | 26.3 | 57.4 |
| 1992-1997 | 19.2 | 30.0 | 76.6 |
| 1997-2002 | 24.1 | 37.5 | 95.7 |
| 30 Year Amortization Scenario | | | |
| 1982-1987 | 11.5 | 17.9 | 36.7 |
| 1987-1992 | 13.8 | 25.1 | 55.0 |
| 1992-1997 | 18.4 | 28.7 | 73.3 |
| 1997-2002 | 23.0 | 35.9 | 91.7 |

* The estimates presented here are based on the assumption that rent increases will entirely offset the amortized conservation costs. The estimated rent increases therefore reflect the percent which the amortized conservation costs represent of estimated gross revenues in 1982. All percent increases relate to the 1982 rent base.

As noted above the magnitude of the rent increases required to offset the conservation costs varies significantly with the amortization period selected. For example, Case Study 2 would face an immediate 1982 rent increase of 14.9% if the conservation costs are amortized over 10 years but only 11.5% if a 30 year amortization period is selected. In 1987, a further small increase of 2-3% would be allowed under each amortization scenario. In 1992, no increase would be

allowed under the 10 year amortization scenario, in fact, the drop in costs would jeopardize rent increases allowed on the basis of other cost increases. Increases of 4-5% would be allowed under the 20 and 30 year amortization scenarios. In 1997, increases would be allowed under all amortization scenarios.

- It must be borne in mind in interpreting these percent rent increase estimates that they all relate to the 1982 base rent in 1982 dollars. Therefore, to the extent that this base rent increases to offset conservation costs in 1982 or 1987, the percent increase in actual rent in subsequent years will be smaller than that indicated.

- These estimated percent rent increases relate only to the increases necessary to cover the conservation costs under each of the amortization scenarios. No doubt, other costs will increase as well so it is likely that these increases will represent only one portion of a larger rent review cost pass-through award. No attempt has been made here to estimate the extent of these other cost increases.

- The rent increases necessary to cover the conservation costs are significant in all cases; and they are also most severe in the initial year - 1982 in the above example. Even a 12% increase is substantial - especially when it is recognized that this does not include other (non-conservation) cost increases.

- The most severe rent increases would be felt by the non-profit building because of the low rent structure of the building at present; in the absence of offsetting subsidies, rents in this building will increase by 55-70% by 1987 for conservation costs alone. This substantial level of rent increase would not bring rents in this building up to prevailing market rents for comparable accommodation but it would likely represent a severe financial burden in tenants.

- For the two private buildings, increases in rents of 15-30% by 1987 to cover conservation costs alone would likely go a long way towards offsetting the amounts by which rent review has held down rents since 1976. For comparison, in the hypothetical circumstance where a landlord had accepted 6 percent annual rent increases since 1976 where (in the absence of rent review) he might have expected to obtain a 10% annual rate of increase (approximating the rate of inflation for the period), by 1982 the magnitude of the differential in rent would be about 25% - by 1987 the differential would be 50%. Clearly, the pass-through of the estimated conservation costs would bring rents back much closer to the point where they might have been in the absence of rent review.

- **What is the current situation with regard to the ability of tenants to afford their accommodation?**

  - Information on tenants and their ability to afford their accommodation is sketchy at best. Nontheless, several broad conclusions can be made

based on an analysis of the preliminary results of the 1981 Rental Market Survey conducted by the Ministry of Municipal Affairs and Housing in Metro Toronto, Hamilton, London, Windsor, Ottawa, Thunder Bay and Sudbury:

- Most tenants can afford their current accommodation - weighted survey results indicate that about three-quarters of tenants had rent/income ratios of 25% or less in 1981. Only about 15% of tenants pay more than 30% of their income in rent. Comparison of the 1981 survey results with the 1980 survey results indicates that rent/income ratios appear to have dropped significantly in the period between the surveys.

- Some tenants face serious affordability problems - while it is true that the majority of tenants are able to afford their accommodation, there remain some tenants who must devote a disproportionate share of their income to rent payments. If 25% of income is regarded as the appropriate maximum rent which tenants can afford, about one-quarter of tenants in 1981 were paying more than they could afford; if the appropriate maximum ratio is regarded as 30% of income, about 15% of tenants were paying too much.

- Some tenants with apparent affordability problems do not appear to be in need - despite the fact that they must devote an excessive proportion of their income in rent, some tenants apparently deliberately choose to live in more expensive accommodation than they require. The Rental Market Survey indicated that many tenants with rent/income ratios in excess of 25% live in accommodation larger than their basic needs. For example, less than 15% of single-person households who pay more than 25% of their income in rent live in rooms or in a bachelor apartment; almost 30% have 2 or more bedroom units and 58% had one-bedroom units. Few tenants paying more than 25% of their income in rent appear to live in overcrowded conditions, many choose to live in accommodation which is larger than what most observers would regard as their basic needs.

- All type of tenant groups have some members with affordability problems - while the elderly are estimated to account for almost 40% of tenants with rent/income ratios in excess of 30%, some households in all age groups pay an excessive proportion of their income in rent. Similarly, households of all types are represented in the group of tenants who pay in excess of 30% of their income in rent. Almost two-thirds of tenants devoting more than 30% of their income to rent are non-family households; probably just over half of these non-family households would be elderly people, but the remainder would be younger. Families with children comprise about one-quarter of the tenants paying in excess of 30% of their income in rent - the survey sample was too small to say reliably how many of these are single-parent families. Families with no children comprise only about 10% of the needy tenants.

- Not all needy tenants are eligible for government housing assistance programs - government housing assistance programs are targeted primarily at elderly people and families with children. The survey results indicate that teants with afforrdability problems include other groups as well. One group with particular difficulties identified in another section of this report is comprised of single persons aged 40-60; while not large in numbers, they do represent one clearly identifiable group with particular housing problems not currently being met by government housing assistance programs.

- Not all tenants eligible for government housing assistance programs actually obtain assistance - the fact that some 15% of all tenants surveyed devote more than 30% of their income to rent and the majority of these tenants are elderly or families with children (both of which are target groups for housing assistance programs) indicates that current housing programs are not serving all of their target groups. The lengthy waiting lists for public housing are another indicator of the inadequacy of current government housing assistance in meeting the needs of the target groups.

. To conclude, therefore, while most tenants are clearly not having difficulty meeting their rent payments, there is a significant minority which do have such problems. Though the size of this group is difficult to estimate, it is clear that it is comprised of some tenants who are not currently eligible for government housing assistance and other tenants who, while eligible, do not currently obtain such assistance.

. **What impact could future high-rise conservation costs have on tenants and their ability to afford this type of accommodation?**

. It was shown above that the immediate impact of the expected conservation costs on rents in the case study private rental buildings would vary from about 12% to 23% depending on the extent of the conservation costs themselves and on the amortization period assigned to the conservation improvements. There can be little doubt that rent increases of this magnitude (plus whatever other financing or operating cost-related rent increases might be appropriate) would have a significant impact on some tenants. It would inevitably result in an increase in the proportion of all tenants' incomes expended in rent. This would result in more tenants having to spend an excessive proportion of their income on rent or alternatively, in pushing these tenants into seeking ever scarcer lower-priced rental accommodation on the tight rental markets prevailing in most Ontario centres - tight, at least in terms of lower-priced accommodation.

. Little empirical work is available (or possible) on the impact which such rent increases could have on tenants. In some work quoted in The Impact of Rent Review on Rental Housing in Ontario: A Staff Research

Report from the Ministry of Municipal Affairs and Housing, J. Miron estimated the sensitivity of afforability to changes in rents relative to income.

SENSITIVITY OF AFFORDABILITY MEASURES TO CHANGES IN RENTS RELATIVE TO INCOME, 1978

| Percent Change in Rents Relative to Income | Percent of Households with Problem | |
|---|---|---|
| | 25% Threshold | 30% Threshold |
| 10% higher | 35.9 | 27.1 |
| 5% higher | 33.2 | 25.3 |
| no change | 30.2 | 23.3 |
| 4% lower | 28.4 | 21.9 |
| 10% lower | 26.4 | 20.4 |

This table is based on 1978 data and it seems likely that the figures overstate the proportion of tenant households with affordability problems today; recall that estimates based on the 1981 Rental Market Survey conducted by the Ministry of Municipal Affairs and Housing (and cited in the previous section) indicate that approximately 15% of renters paid in excess of 30% of their income in rent in 1981. Such an improvement in the number of tenants devoting an inordinate amount of their income on rent is consistent with the widely-held contention that rent review has improved the affordability situation for tenants. Despite the necessary qualifications with regard to the fact that the data relates to 1978, Miron's tabulations provide a useful indicator of the magnitude of the tenant affordability problems which result when a large rent increase such as that related to the conservation cost pass-through occurs.

If it is assumed that, except for the conservation cost pass-through, rents and incomes rise by the same amount in the year that the cost pass-through is granted, clearly a significant number of tenants will be in a more disadvantaged situation than they were previously. With estimated private rent increases of 12-23% due to the conservation costs, the increase in the proportion of tenants with affordability problems would (according to Miron's figures) increase by more than 4 percentage points (at the 30% rent/income threshold) - say from the 15% estimated in 1981 to more than 19%.

It must be stressed that the Miron figures can only be regarded as a very rough indicator of the magnitude of the increase in tenants with affordability problems if the conservation cost pass-throughs were reflected in rent increases today:

- Miron's figures are based on 1978 estimates which will be substantially less today;

- the magnitude of the increases in the percent of renters with affordability problems resulting from rent increases will be different when 23% of renters already have a problem (in 1978) than when only 15% of renters have a problem (estimate for 1981); and

- not all buildings will face the same percent increase in rents as a result of the conservation costs; the dramatic effect of the conservation costs on rents in the non-profit building, for example, will cause much greater difficulties for tenants than the projected increases for the private buildings.

Despite these data problems, it is clear that the increase in rents resulting from the conservation cost pass-throughs will result in an increase in the number of tenants with affordability problems. The magnitude of the increase may be open to question but there is little doubt it will be significant - raising the estimated 15% of tenants paying in excess of 30% of their income in rent in 1981 up to perhaps 20-25% if all rental buildings faced the rent increase at onoce (which, of course, they will not).

. Future changes in the proportions of tenants with excessive rent/income ratios as a result of the expected conservation cost pass-throughs in 1986 and beyond are even more difficult to assess. If rent increases in the intervening years keep pace with income increases, clearly, the proportion of tenants paying an excessive amount of their income in rent would rise again. If, however, rent increases in the interim lag income increases (as they clearly have done since 1976), the proportion of tenants with affordability problems will decline in the interim, thus offsetting at least some (if not all) of the future conservation cost-related rent increase.

. **What options do tenants have in dealing with rent increases due to conservation costs that make their accommodation unaffordable?**

. The majority of tenants would be able to afford the rent increases likely to occur as a result of the pass-through of conservation costs. However, this fact should not cloud the issue that such rent increases will expand the size of the group with affordability problems and also will increase the severity of the difficulties for those who already have affordability problems. For these tenants, the problems caused by the rent increases are real and their options in dealing with them are limited. They could:

- move to alternative accommodation, however, rental markets are very tight at present - especially in low-cost accommodation and there are unlikely to be many low-rent alternatives on the private rental market

- double up with other tenants however, this could lead to overcrowding depending on family circumstances

- apply for government assisted housing however, unless their need is extreme, there is unlikely to be alternative accommodation immediately available due to the long waiting lists for assisted housing; also, some needy tenants (e.g. non-elderly single persons) are not eligible for assisted housing

For many, it would appear that the final option of doing nothing, i.e. staying on and paying the higher rent, will be the option selected; unfortunately, in many of these hardship cases, "doing nothing" means reallocating finances from other necessities into housing expenditures.

. **What options do governments have in dealing with the problems that could be created due to conservation cost-related rent increases?**

. Government options in dealing with these problems are limited. There appear to be three major options:

- provide subsidies to landlords such that these conservation costs would not be passed through to tenants;

- restrict allowable rent increases to below or equal to the rate of inflation or income growth so rents would not increase faster than incomes; or

- expand the volume of assisted housing and the target groups for assisted housing such that all needy tenants would be able to obtain the assistance they require.

. The first option, that of keeping rents low by providing subsidies to landlords would be extremely costly, administratively complex and very inefficient in terms of targeting government assistance to those in need: the 75-85% of tenants who do not require assistance would nonetheless obtain it at very substantial government expense.

. The second option, restricting rent increases to levels that tenants can afford suffers basically from the same problems as the first - with the major difference that the costs would be borne by landlords rather than the government. This would discourage landlords from undertaking the conservation measures thus leading to the deterioration of the quality of the rental stock. it would also have the effect of further discouraging new rental investment since the onerous (in the view of landlords at least) rent review provisions would be altered further to the disadvantage of landlords.

. The third option, that of expanding the assistance available to needy tenants appears clearly to be the most sensible long-term option available, but it would also be very expensive. Ideally, such an initiative would not be targeted simply at tenants who were

disadvantaged by rent increases due to conservation costs, but would be part of a comprehensive program targeted at all needy tenants. Such a program would require a greater commitment of funds than governments have been willing to devote to the problem in the past plus a recognition that the current target groups for government housing assistance are too narrow. The program to assist need tenants could be structured in a number of different ways including direct government provision of low-cost housing, subsidies through non-profit or co-operative housing groups or shelter allowances. While it is beyond the scope of this report to recommend which type of program would be most effective, it is to be hoped (and expected) that the program would be:

- Efficient - directing assistance only to those who are in need;
- Equitable - including in the target group tenants such as low-income non-elderly single people who are not currently eligible for housing assistance and providing sufficient funds that all those in the target groups receive assistance and
- Integrated - ensuring that assisted tenants are integrated into the community and not concentrated in low-income housing ghettos.

Whatever approach the government selects, it is clear that the conservation costs for government-owned buildings will put additional demands on government resources; no doubt, housing authorities are budgeting for such outlays. Also, it seems that some provision for assisting non-government groups (such as non-profit housing) will be necessary if the rents for these buildings are to remain affordable.

## SUMMARY CONCLUSIONS AND RECOMMENDATIONS

- **What overall conclusions have been reached with regard to the conservation of the existing rental stock?**

  - Deconversion (gentrification) and inner city redevelopment has resulted in the loss of a considerable amount of cheap rental accommodation in grade related dwellings in Toronto over the past several years.
  - These same forces have probably lead to losses of similar types of accommodation, perhaps to a lesser degree, in other major urban centres in Ontario such as Ottawa and Hamilton.
  - In all likelihood these natural market forces will continue to erode Toronto's and other communities' stock of cheap downtown rental accommodation.
  - Little conventional apartment type rental stock has been lost since 1976 in Ontario municipalities due to demolition or condominium conversion.

- The loss of cheap downtown rental accommodation plus current economic conditions have created crisis level housing problems for a small but growing number of people. This growing group of tenants are for the most part single, under 45 years of age, unemployed and not eligible for any form of government housing assistance programs.

- The recommendations set out at the end of Part 3 to encourage conversion and infill in existing residential neighbourhoods, may have many of the same negative results as those described in this report resulting from gentrification. One cannot ignore the question of affordability as long as the very process being encouraged can lead to creating further hardship and displacement of low income tenants.

- Rent review has held rents below what they would have been in its absence. As such, rents generally are below what the free market would dictate and tenants have been (and will likely continue to be) benefitting from this situation. A negative aspect, however, is that since rent review allows the pass-through of increased costs, there is the potential for large, one-time increases in rents which are unlikely to have been possible under a free private market regime (with no rent controls). When viewed from the long-term point of view, these large increases help to restore rents towards what they would have been in the absence of rent review, but they tend to disadvantage some needy tenants who have grown accustomed to constantly declining real rents.

- Little or no serious action has been taken by private landlords with respect to the conservation requirements that will be necessary to keep the stock of high-rise rental apartments in a safe and liveable condition over next 20 years. Further, there appears to be a limited knowledge among building owners and managers of the scale and nature of future conservation requirements and the appropriate remedial actions which will be necessary over the next 20 years to deal with these requirements.

- The rent review guidelines are inadequate with respect to the conservation process. The rent review system provides little or no incentive for long-term investments for conservation. While many capital cost items related to maintenance and conservation meet the rent review guidelines, the system will only allow costs to be passed through on an as-incurred basis. In contrast, a realistic program of conservation should involve a series of coordinated and well planned actions or steps over a period of several years. In a free market situation, landlords would finance conservation costs out of a reserve fund or out of profits since it would be necessary to prolong the life of structure, an element in future profit-maximization. However, landlords can increase rents beyond 6% in rent control if they can justify increased costs -- but increased profits cannot form part of the justification and the procedure is tedious, costly and uncertain. Therefore, if cost increases can be held below 6%, profits will increase. These economics do not encourage conservation investments.

- A preliminary analysis of such conservation requirements indicates that these requirements could amount to an average cost of $7,000.-$14,000. in 1982 dollars per apartment unit over the next 20 years. The scale of cost involved will depend on a variety of factors. For example, older poorly designed and constructed buildings could cost significantly more while others could cost less. It must be emphasized that these costs would be in addition to the costs associated with normal day-to-day maintenance and operation requirements and costs and any added costs related to the overall refinancing of buildings.

- There are at the present time some 434,000 high-rise rental apartment units in the Province. These units represent approximately 40% of the total stock of rental housing in Ontario. If as we have concluded above, the conservation costs per unit over the next 20 years could amount to between $7,000. and $14,000. in 1982 terms, the overall costs of conserving the total stock of such units could be as high as 6 billion dollars. The direct costs to the senior levels of government to conserve the 61,500 high-rise rent-geared-to-income apartments in Ontario (excluding rent supplement units) could be as high as 860 million dollars in 1982 terms.

- While the public sector cost implications of future high-rise conservation requirements are most significant at the Provincial and Federal level insofar as rent-geared-to-income housing is concerned, it should be pointed out that those municipalities with non-profit housing companies will also have to face the conservation cost issue in years to come as will the growing number of private non-profit and co-op housing groups across the Province.

- Despite the size of the expenditures that may be required to conserve the existing stock of high-rise rental apartments, the cost of replacing these units would be at least four times more expensive requiring break-even rents that would effectively render such new units unaffordable to all but a select few without massive government intervention and subsidy. Therefore, ways must be found to ensure that high-rise apartments are conserved.

- If the costs of conserving the high-rise apartment stock are passed on to or paid for directly through rent increases by tenants the proportion of tenants that are unable to afford private rental housing would increase.

- This study only looked at conservation requirements and costs with regard to high-rise rental apartments since they constitute the single largest component of the rental apartment stock in the Province. However, we would point out that there are approximately 290,000 rental apartments in the Province located in low-rise/walk-up type apartment buildings. These apartments are generally older than those in high-rise buildings and their future conservation requirements and costs can not and should not be overlooked. Given the intrinsic differences in

construction, the requirements of low-rise buildings will likely vary considerably from those of high-rise buildings. The impact of these requirements and costs will be more significant than those of high-rise buildings for smaller and medium size municipalities across the Province.

- **What actions would we recommend to protect those tenants that are at risk in the face of the loss of rental stock and the projected costs of conserving the rental stock?**

  - The first recommendation lies in the realm of motherhood. All levels of government and communities should be encouraged to work together to create a climate of acceptance for an important and growing group within our society. It has to be made clear that low income single people, including all sub-groups, are an integral part of our society. They will not, nor should they, disappear into institutions. Governments must attack intolerance through consciousness-raising, and, make it clear that they will not stand by and see communities ghettoize this group.

  - One way or another the housing and other problems of low-income singles will in our view have to be dealt with by governments at all levels.

  - At the local municipal level it is essential to ensure that municipal regulations in larger cities permit as-of-right the type of housing which would cater to low-income singles. This would mean sufficiently large areas of land on which rooming house type accommodation can be provided within existing houses or in new construction. If action in this regard is not undertaken by municipal councils it may be necessary for the Provincial Government to intervene to ensure the same.

  - The eligibility for Rent-Geared-to-Income assistance under senior government programs should be extended to include low income single people above the age of 45 and those with a demonstrable physical or mental disability impairing their ability to earn.

  - Regulations should be changed to permit 100% occupancy by households receiving Rent-Geared-to-Income assistance in private, public and third sector rooming houses.

  - A program of low interest loans and grants should be developed to encourage the private sector to provide rooming house accommodation.

  - Non-profit and cooperative housing programs should be extended to allow the acquisition of existing rooming houses, the creation of newly converted rooming houses, and the construction of new rooming houses by private and public non-profit groups.

  - Social agencies, voluntary groups and church groups should be funded by the appropriate provincial ministries to provide social support,

supervision and management services for low-income single people, related to accommodation provided through a range of programs set out in accompanying recommendations.

- Local management resource centres in large cities should be funded to assist the development of skills in the management of housing for low income singles.

- Any programs which are developed to provide direct assistance for the conversion or upgrading of property for rental purposes should ensure that such activities do not lead to displacement of existing tenants.

- Financial assistance programs should be developed for those tenants in need who are not eligible for rent-geared-to-income housing or the rent supplement program in order to protect these tenants against rent increase due to conservation.

- **What actions would we recommend to ensure that the existing stock of high-rise rental apartments are conserved in a safe and livable condition over the next 20 years?**

  - In order to encourage private landlords to undertake conservation type measures to ensure that these buildings remain safe and livable, the existing rent review guidelines should be revised to permit landlords to develop and carry out long-term conservation programs.

  - A detailed analysis should be undertaken of the likely future conservation requirements and costs associated with Ontario Housing Corporation buildings and programs developed and budgets allocated to ensure that these conservation requirements are met and that this large and valuable stock of low-cost rental housing remains safe and livable. In this regard we acknowledge that the costs associated with such requirements are shared on a 50/50 basis between the Province and the Federal Government. Given this, the Province should move quickly to engage the support and cooperation of the Federal Government in undertaking such a review and program of conservation.

  - Awareness and training programs should be developed for architects, engineers, building managers and superintendents, and municipal building inspectors that are aimed at improving the general level of understanding and ability of these key actors in identifying/ recognizing conservation requirements and the appropriate remedial actions that should be taken to meet these needs. Strategies that could be considered for these various groups include continuing education type programs in the form of formal courses and seminars, and brochures and guideline booklets dealing with specific topics.

  - In order to prevent or reduce future conservation requirements related to new buildings, serious consideration should be given to changing the design, funding and construction process as it relates to new

buildings. Again the design professions need to be current with regard to state-of-the-art building technologies. Methods for ensuring this are non-existent and those programs that do exist to retrain and communicate such information are unco-ordinated at best and rely on the individual commitment of the design professional to keep abreast of his or her field.

At the same time the development industry should be encouraged to develop new buildings on a life-cycle costing basis and lending institutions, including governments that provide funds for specific residential projects (e.g. non-profit and cooperative housing), should look at changing their appraisal and lending practices to take this approach into account.

- A review should be carried out of the options available to the Province for providing tax incentives and property tax abatements to private landlords to undertake a responsible program of building conservation.

- The Province should fund a series of conservation demonstration projects as one specific way of providing the type of information on a case study basis that the design and construction industry needs and also as a way of testing different alternative solutions to specific conservation needs.

- Our final recommendation pertaining to rental housing conservation pertains to low-rise apartment buildings as opposed to high-rise buildings. The Province should undertake immediately an analysis of the future conservation requirements and costs associated with low-rise apartment buildings so as to develop the type of information base and understanding that this study has been able to achieve with respect to the high-rise stock.